REPORT 13 OF 2013
SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 4TH MPUMALANGA PROVINCIAL LEGISLATURE: MPUMALANGA ECONOMIC GROWTH AGENCY (2011/12)

1. INTRODUCTION

The Select Committee on Public Accounts HEREINAFTER referred to as SCOPA examined the annual report of the Mpumalanga Economic Growth Agency (MEGA) HEREINAFTER referred to as the Entity, which includes the financial statements, report of the Auditor-General, report of the Accounting Officer and performance information.

The Committee sent preliminary questions to the Entity and received responses which were subsequently presented during a Committee Hearing. This transparent process of engagement was aimed at assisting and guiding the Entity on areas that require improvement and monitoring.

The Committee discharged its mandate as outlined in Section 133(1) (a) (i) - (iv) of the Mpumalanga Provincial Legislature.

2. COMMITTEE PROCEDURES

The Committee met onthe 13 June 2013 to deliberate on the above reports. Meetings of the Committee were open sessions for the public including the media as required by Standing Rule 116 and section 118 (1) (b) of the Constitution of the Republic of South Africa.

TheAccounting Authority and its delegation responded to various questions posed by the Committee during the hearing.

3. COMMITTEE FINDINGS ANDRECOMMENDATIONS

3.1 BIOLOGICAL ASSETS (R 8 831 275.00)

The Committee found that the Auditor General has reported that he (Auditor General) was unable to quantify the overstatement of gains on biological assets and agricultural produce of R 8 831 275.00.

The Committee, in its questions, wanted the Accounting Authority to provide reasons that resulted in the gains on biological assets and agriculture produce to be overstated by R 8 831 275.00 as well as the measures taken to ensure that this finding or a finding of similar nature does not recur in future audit reports.

The Accounting Authority, in giving responses related to the reasons for overstatements, indicated that the first reason was the merger of entities to form MEGA were the biological assets transferred from Agriculture Development Corporations to MEGA had a vineyard at Loopspruit and Lemon Orchards at Tekwane which were declared valueless. However, in 2012, these Assets were assessed by the Accounting Authority and were found to derive future economic benefits and thus valued at R 8 831 275.00.

The Accounting Authority - concerning measures put in place - indicated that an independent, suitably certified valuator, the Mpumalanga Properties, has been appointed to ensure that in 2012/13 financial year, the Entity has appropriately valued its biological assets. The verification and valuation of the assets was performed including the deed search for all former entities that preceded MEGA – added the Accounting Authority. In the same process, the Accounting Authority indicated, that the entity will undertake a conveyancing process to transfer all identified assets and that the legal department of the Entity is in the process of transferring the ownership of these identified assets into the name of the Entity.

The Committee was of the view that the response of the Entity is not adequate because this, according to the Committee is a matter that is related to management deficiencies. The Committee believes that proper management controls were not put in place in the merger of the three institutions. The Committee firmly argued that should proper management system been in place for the merger, this finding could have been avoided but rather this is a matter of management deficiencies and lack of administrative leadership.

3.1.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

(i) The Accounting Authority must ensure that the CEO of the entity verify all its biological assets and provide the verification report to the Committee

(ii) The Executive Authority must ensure that the Accounting Authority develop proper and adequate systems for the recording, managing of all biological assets belonging to the Entity.

(iii) The Accounting Authority must ensure that there are proper systems for effective management, valuation and recording of all biological Assets

(iv) The Accounting Authority should ensure that a reputable service provider for valuation is used and that the progress is monitored in terms of the SLA

3.2 INVESTMENT PROPERTY(R 1 535 032 934.00)

The Committee found that the Auditor General has reported that he was unable to obtain sufficient appropriate audit evidence as to the existence, valuation and rights relating to investment properties amounting to R 1 535 032 934.00 as disclosed in the Balance Sheet as well as the fair value adjustment of R 716 462 922.00as disclosed in the Income Statement. The Auditor General indicates that he was unable to determine whether any adjustment relating to investment property in the financial statement was necessary.

The Committee was concerned that the Accounting Authority failed to provide the Auditor General with sufficient appropriate audit evidence, valuation and rights relating to investment property amounting to R 1 535 032 934.00.

The Accounting Officer, responding to the concerns of the Committee, indicated that it has failed to provide the Auditor General with the relevant evidence information because, through the merger to form the Entity certain assets were not transferred into the Entity's name and as a result no valuation was performed by an external valuator in the 2011/12 Financial Period. However, the Accounting Authority has internally valuated the investment properties which led to the audit evidence supporting the fair value judgement not being sufficient and appropriate. In addition, the Accounting Authority is in the process of appointing a suitable service provider to confirm the completeness, existence and valuation of these assets.

The Committee is of the view that the Accounting Authority should have conducted the verification at the time of the transfers of these assets to the Entity not after the matter has been raised by the Auditor General.

3.2.1 RECOMMENDATION

The Committee recommends the House to resolve that:

(i) The Accounting Authority must develop a system that will package audit evidence for audit purposes.

(ii) The Accounting Authority must provide a report on the ownership and/or rights of the investment property amounting to R 1 535 032 934.00.

3.3 PROPERTY, LAND AND EQUIPMENT (UNRECONCILED DIFFERENCE R29 876 556.00)

The Committee found that the Auditor General has reported that Property, Plant and Equipment of R43 493 367.00 as disclosed in note 5 to the financial statements did not agree to the balance of R 13 616 811.00 per the fixed assets register resulting in an unreconciled difference of R29 876 556.

The Auditor General further reported that there was no supporting evidence for this difference that could be submitted for audit purposes. As a result, the Auditor General was unable to confirm the existence, completeness and valuation of property, plant and equipment through alternative means. In addition, the Auditor General was unable to determine the effect on the other account balances of classes of transaction contained in the financial statements.

The Committee, upon this finding, solicited reasons that made the Accounting Authority to fail in providing the Auditor General with supporting evidence to confirm the existence, completeness and valuation of property, plant and equipment of R R43 493 367.00 as well as the measures taken by the Accounting Authority to address this finding.

The Accounting Authority indicated that the property, plant and equipment of several entities were brought into the financial records of the Entity through the merger in 2011. However, added the Accounting Authority, a consolidated fixed assets register was not accurately compiled and therefore the balances per the financial statements did not agree to the balances per the fixed assets register. However, the Entity was in the process of evaluating and concluding the appointment of s suitable service provider to confirm the completeness, existence and valuation of Property, plant and equipment but was not completed in time before the 2012 Audit.

The measures taken by the Entity, indicated the Accounting Authority, included appointing an independent valuator, Ndlala Mass Valuers (Pty) Ltd, which is appointed toconfirm the completeness, existence and valuation of Property, plant and equipment for the 2012/13 financial period. The Entity, through the Accounting Authority, further indicated that it will assess the useful life and residual value of assets on an annual basis as per the requirements of the IFRS and SAGAAP.

3.3.1 RECOMMENDATION

The Committee recommends the House to resolve that:

(i) The Accounting Authority must provide a detailed report on the outcome of the independent valuer.

(ii) The Accounting Authority must ensure that the Assets register is updated on a continuous basis and that portfolio of evidence of each Asset be correctly packaged.

(iii) The Accounting Authority must ensure that a reconciliation to account for the R 29 876 556.00 for Property, Land and Equipment is done and a report submitted to the Committee

3.4.LAND AND BUILDING (R 8 969 294.00)

The Committee found that the Auditor General has reported that the Assets register had Land and Building amounting to R8 969 294.00 which the Auditor general could not obtain sufficient and appropriate audit evidence to confirm the existence and valuation by alternative means. In addition, the Auditor General was unable to determine whether any adjustment relating to land and buildings disclosed as R 2 286 360.00 were included in Property, Plant and Equipment amounting to R43 493 367.00 as disclosed in note 5 to the financial statement was necessary.

The Committee, considering the finding, wanted the Accounting Authority to provide reason(s) for failure to provide the Auditor General with sufficient and appropriate audit evidence to confirm the existence and valuation of land and buildings amounting to R8 969 294.00.

The Accounting Authority indicated that the property, plant and equipment of several entities were brought into the financial records of the Entity through the merger in 2011. However, added the Accounting Authority, a consolidated fixed assets register was not accurately compiled and therefore the balances per the financial statements did not agree to the balances per the fixed assets register. However, the Entity was in the process of evaluating and concluding the appointment of s suitable service provider to confirm the completeness, existence and valuation of Property, plant and equipment but was not completed in time before the 2012 Audit.

The measures taken by the Entity, indicated the Accounting Authority, included appointing an independent valuator, Ndlala Mass Valuers (Pty) Ltd, which is appointed toconfirm the completeness, existence and valuation of Property, plant and equipment for the 2012/13 financial period. The Entity, through the Accounting Authority, further indicated that it will assess the useful life and residual value of assets on an annual basis as per the requirements of the IFRS and SAGAAP.

The Accounting Authority repeated the same response to the Auditor General finding that he was not able to obtain sufficient appropriate audit evidence for other changes and movements of R3 691 599.00 included in the property, plant and equipment with a carrying amount of R 43 493 367.00 as disclosed in the balance sheet and note 5 to the financial statements.

The Committee is of the view that the Entity could not do a proper management of the merger. The Committee further believes that in the management of each of the entities merged, there were serious management deficiencies because if they were not, each entity during the merger should have provided details of its own property, plant and equipment.

3.4.1 RECOMMENDATION

The Committee recommends the House to resolve that:

(i) The Accounting Authority must ensure that a mechanism, tool or system to package its portfolio of evidence in a manner that is auditable is developed.

(ii) The Accounting Authority must ensure that the report of valuation by the valuer is submitted to the Committee.

3.5 NON-CLASSIFICATION OF FINANCIAL ASSETS (R 175 547 946.00)

The Committee has found that the Accounting Authority failed to classify other financial assets amounting to R175 547 946.00 between current and non-current assets in accordance with the South African statement of GAAP, 1AC1 presentation of financial statements.

The Committee wanted the Accounting Authority to account on the failure to classify these assets and to provide the measures that have been taken to ensure the non-recurrence of this finding in future audit reports.

The Accounting Authority indicated to the Committee that the failure to classify assets was attributed to two reasons. Firstly, during the 2012 financial period, the Entity changed its accounting system. However in the migration to the new system, the Accounting Authority failed to ensure that proper procedures and controls to ensure efficient migration of complete data to enable a proper distinction between current and non-current assets were not implemented. Secondly, proper training was not conducted by the system service provider to finance department personnel to be able to use the system efficiently.

The Accounting Authority indicated that - in relation to the measures taken to prevent this finding from recurring- has ensured that the system has been configured to meet the needs of the Entity’s end users, particular the entity’s finance department. Secondly, the Accounting Authority indicated that integrity checks on the completeness of data into the new system have been incorporated on the normal day to day operations.

In addition, the Committee found that the Accounting Authority has failed to ensure that the Entity’s financial statements contain all the required disclosures as per the requirements of GAAP, IFRS7.

The Accounting Authority indicated that the reported finding came as a result of the Entity’s misinterpretation of the requirements. However, this matter has been attended to, to ensure compliance in the upcoming financial statements. In addition, the Accounting Authority has made provision in the organogram to ensure that the necessary capacity to undertake these functions in an efficient and effective manner.

The Committee, considering the measures put in place, was not happy that an entity with a CEO and a CFO could still fail classify financial assets. This was unacceptable because the CEO and the CFO should be in a position to perform this task considering the level in which they are employed and their functions as per the PFMA.

The Committee further believed that changing an accounting system have no bearing to this finding because when changing a system, it gets piloted before full implementation and this means the CEO and the CFO have not executed their functions as per the requirement of the PFMA.

The misinterpretation of requirements is an unacceptable response from the department because the CEO and the CFO are employed to ensure the correct interpretations of the laws and regulations. The Committee is also of the view that entity should have corrected this matter during the audit process but still could not.

3.5.1 RECOMMENDATION

The Committee recommends the House to resolve that:

(i) The Accounting Authority must ensure that the entity is well capacitated in Accounting Standards especially GAAP and IFRS7

(ii) The Accounting Authority must ensure that the Finance section of the Entity is capacitated with relevant official(s) with the relevant skills and expertise.

3.6 TRADE AND OTHER RECEIVABLE OVERSTATED (R 23 380 047.00)

The Committee has found that the Accounting Authority has overstated its trade and other receivables by R 23 380 047.00.

The Committee further found that the Auditor General has concluded that the Entity would not be able to recover this amount and therefore warranted to be declared as debts written off.

The Accounting Authority, on the contrary has indicated that management was of the opinion that all avenues for the recovery of defaulted instalments by debtors had not been exhausted. This made the Accounting Authority to hold the view that if all the avenues were to be explored, the funds could still be covered hence it would have been premature to write them off at this stage.

The Committee wanted to understand which were the avenues that were still to be exhausted and why the Accounting Authority therefore explains them to the Auditor General. The Committee further wanted to understand if the Accounting Authority still believes that the trade and receivable are not overstated.

The Accounting Authority could not provide the relevant answers to the Committee which left the Committee believing that debts could not be covered unless the Accounting Authority provide the avenues still be explored.

3.6.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

(i) The Executive Authority must ensure that all monies owed to the Entity are collected.

(ii) The Accounting Authority must develop a system to manage, control and collect its debtors

(iii) The Accounting Authority must collect the debtors which it believed are still receivables and submit the report to the Committee.

3.7 FRUITLESS AND WASTEFUL EXPENDITURE (R2 559 913.00)

The Committee has found that the Auditor General has reported that management was unable to provide sufficient appropriate audit evidence on whether payments relating to consultants were not fruitless or wasteful expenditure. The Auditor General was unable to confirm the completeness of fruitless and wasteful expenditure of R 2 559 931.00. Consequently the Auditor General was unable to determine whether any adjustments relating to fruitless and wasteful expenditure in the financial statements was necessary.

The Accounting Authority conceded that it has challenges with its record managements system that it could not be able to provide the Auditor General with sufficient evidence relating to the use of consultants. However, a registry has been set up for the record keeping of documents and other information that will be readily available during the year under review and also for audit purposes.

The Committee indicated to the Accounting Authority that these funds must be recouped from those who presided over the fruitless and wasteful expenditure. The Committee was also of the view, which was proven correct, that the Accounting Authority does not understand fully the difference between irregular, unauthorised, wasteful and fruitless expenditure and how each of these expenditures is treated.

3.7.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

(i) The Accounting Authority must provide evidence to the Committee that the use of consultants was not wasteful and fruitless expenditure.

(ii) The Accounting Authority must develop a system that will detect, prevent and manage wasteful and fruitless expenditure.

(iii) The Accounting Authority must submit a list of all consultants used in the past two years and indicate the purpose and benefit derived from using the consultants.

3.8. **REVENUE AND RETAINED INCOME OVERSTATED AND TRADE AND OTHER RECIEVABLES UNDERSTATED (R 3 441 288.00)**

The Committee has found that the Auditor General has reported that government grants of R 129 147 368. 00 included in revenue of R 253 467 162.00 were incorrect due to wrong output tax rate used. The recalculation amount using the correct output tax rate amount was R 125 706 080.00 resulting in a difference of R 3 441 288.00. Consequently, the Auditor General found that revenue and retained income was overstated by R 3 441 288.00 while trade and other payables were understated by R 3 441 288.00.

The Committee solicited the reasons and measures taken to avoid the recurrence of this finding.

The Accounting Authority indicated that one of the entities merged to form the Entity, MHFCO was exempt from VAT as a result the entity was of the opinion that the portion of government grant that were transferred to MHFCO did not attract VAT as the funds were used for the fulfilling of financial services which is exempted from VAT. Therefore, the Entity incorrectly accounted for VAT because it was unaware that there is a need to raise the output VAT on government grant received.

The Accounting Authority therefore indicated that, in order to prevent this finding from recurring, they ensured that government grants are scrutinised individually.

3.8.1 RECOMMENDATIONS

The Committee recommend the House to resolve that:

(i) The Executive Authority must ensure that the Accounting Authority is well capacitated to understand revenue and receivables that have VAT output.

3.9. VALIDITY

The Committee has found that the Auditor General has reported that 46% of the actual reported performance relevant to programme 3: infrastructure development solution was not valid or differed materially when compared to the source of information or evidence provided. This was due to senior management not monitoring standard operating procedures for the recording of actual achievements.

The Committee wanted the Accounting Authority to provide reasons for the failure to ensure that 46% of the actual reported performance relevant to programme 3: infrastructure development was valid as well as the reasons for the senior management's failure to monitor standard operating procedures for the recording of actual achievements. The Committee further wanted the Accounting Authority to provide the measures taken in ensuring that this finding does not recur.

In addition, the Committee found that the Auditor General has reported that 36% of actual reported performance relevant to programme 5: trade and investment was not valid when compared to the source information evidence provided. The responses of the Accounting Authority in the two findings were the same.

The Accounting Authority indicated that target and performance templates relating to disclosures in the Annual Report were sent to relevant managers to complete. The figures were obtained and inserted into the annual report without any reference to the finance department. This therefore, resulted in the audit evidence and supporting documents held by the finance department ended up being materially different to the figured in the annual report.

In addition – added the Accounting Authority- the Entity fell short of monitoring standards operating procedures for the recording of actual achievements as a result of vacant positions of critical senior management for a lengthy period, ineffective transitional control measures over the validity of supporting documents subsequent to the three entities merged, lack of documentation of corroborating evidence supporting the actual reported performance information.

The Accounting Authority indicated that – in prevent this finding from recurring - has put measures such as:

(a) Filling of critical senior positions with experienced individuals,
(b) Rigorous control activities of reviewing and monitoring the process of information accumulation and reporting
(c) Documentation and filling of supporting evidence
(d) Review of the annual report information to ensure this agrees to the entity's financial records and source of information.

3.9.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

(i) The Executive Authority must ensure that the Accounting Authority implement the measures listed in (a) to (d) above within receivable time and provide progress report to the Committee.

3.10 ACCURACY

The Committee found that the Auditor General has reported that 38% of actual reported indicators relevant toprogramme 4: development finance was not accurate when compared to the source information. This was due to senior management not monitoring standard operating procedures for the recording of actual achievements.

The Committee held the Accounting Authority accountable for the reported finding and wanted reasons for these findings and the measures put in place to avert these findings from recurring.

The Accounting Authority, accounting to the Committee, indicated that the target and performance template relating to disclosures in the annual report was sent to managers to complete. The figures were inserted to the annual report without any reference to the finance department of the Entity. As a result, the audit evidence and supporting documents held by the finance section of the Entity ended up being materially different to the figures presented in the annual report

The Accounting Authority added monitoring was not done by senior management due to vacant positions of critical senior management for a lengthy period, ineffective transitional control measures over the validity of supporting documents subsequent to the three entities merged, lack of documentation of corroborating evidence supporting the actual reported performance information and lack of alignment of the performance information of the three companies that existed before the Entity was formed.

The Accounting Authority in addition, indicated that to avert this finding from recurring will:

(a) Fill all critical vacant post at senior management

(b) Incorporate performance indicators that are reliable, well defined, verifiable, cost effective, appropriate and relevant.

3.10.1 RECOMMENDATION

The Committee recommend the House to resolve that:

(i) The Executive Authority must ensure that the Accounting Authority implement (a) and (b) as indicated above.

(ii) The Accounting Authority must develop a system or a tool to validated reported information against supporting evidence.

3.11 ACHIEVEMENT OF PLANNED TARGETS

The Committee has found that the Auditor General has reported that 39 of the 68 planned targets were not achieved. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

The Committee wanted the Accounting Authority to provide reasons that resulted in 58% of the targets not being achieved, the failure to ensure that indicators and targets are suitably developed during the strategic planning process and the impact of failure to achieve 58% of the planned targets on service delivery as well as the measures put in place to prevent this finding from recurring.

The Accounting Authority indicated that failure to achieve targets was due to indicators not well defined. The planned targets were not achievable, added the Accounting Authority because of staff contingent, significant capacity challenges, inadequate budget. The accounting Authority also charged that the budget received from Provincial treasury was less than what was expected resulting in some of the targets not being met. But will, in future, ensure that all planned targets are SMART.

The Accounting Authority discharged that the failure to achieve 58% of its planned target had a negative impact on service delivery because some communities could not benefit from economic growth interventions that the Entity was supposed to provide as well as socioeconomic upliftment programmes.

3.11.1 RECOMMENDATION

The Committee recommends the House to resolve that:

(i) The Accounting Authority must provide a detailed report on the impact on failing to achieve 58% of its target.

(ii) The Accounting Authority must ensure that the indicators per programme are aligned to the SMART principle.

(iii) The Accounting Authority must ensure that its sections responsible for planning and monitoring are well capacitated to ensure that set targets are achievable, realistic and in line with the Entity's mandate.

3.12 INTERNAL CONTROL

The Committee has found that the Auditor General has reported that the Entity did not establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities. The Auditor further reported that the Entity did not develop and monitor the implementation of action plans to address internal control deficiencies.

The Committee wanted the Accounting Authority to provide reasons that resulted in this finding as well as the measures taken to bar this finding from recurring.

The Accounting Authority indicated that for the two findings, a lack of experience and expertise in key management positions as well as changes and vacancies in the board of directors in the 2012 financial year led the failure as indicated in the finding. However, the Entity in prevent these findings from recurring has undertaken to appoint a dully designated individual with sufficient experience and expertise to develop and monitor the implementation of action plans to address internal control deficiencies. In addition, the Entity indicated that a CEO and a permanent board have been appointed in the 2012/13 financial period.

3.12.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

(i) The Accounting Authority must develop policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

3.13 GOVERNANCE

The Committee has found that the Auditor general has reported that the Entity did not ensure that the Audit Committee promoted accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of internal control environment, including financial and performance reporting as well as compliance with laws and regulations.

The Accounting Authority indicated that the reasons for this finding are as a result of a merger of MADC, MEGA and MHFCo into the Entity, the board was replaced by an interim board. These disruptions, according to the Accounting Authority, lead to a vacuum in the efficiency of the committees of the Entity. Lack of focus on the appropriate terms of reference for the Audit Committee also contributed to this challenge.

In preventing this finding from recurring, the Accounting Authority indicated that a permanent board had been appointed in 2013. The Audit Committee terms of reference has since been revised with focus on risk monitoring and review of the effectiveness of the internal control environment.

3.13.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

(i) The Accounting Authority must ensure that the Audit Committee of the Entity has developed its Audit Charter and submit it to the Committee

(ii) The Accounting Authority must provide a progress report on the implementation of Audit Committee recommendations.

4. CONCLUSION

The Committee has satisfied the requirements of the Mpumalanga Provincial Legislature Rules & Orders of conducting oversight over the financial statements of the entity.

Unless specified otherwise in this report, the Accounting Authority must submit a progress report on these resolutions by the 30 November 2013.

5. ADOPTION

The Select Committee on Public Accounts recommends that the House adopt this report as resolutions.

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Hon. NS Mtsweni Date

Chairperson

Select Committee on Public Accounts

Mpumalanga Provincial Legislature